



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C. FmHA AN No. 1057 (1940)
20250

August 7, 1984

■ SUBJECT: FmHA Loans for New and Expanding
Dairy Enterprises

TO: State Directors, District Directors and
County Supervisors

This Administrative Notice is issued to replace AN No. 859 (1940) which expired June 30, 1984.

Questions continue to be raised about FmHA loans for dairy production. Special policy guidance from the National Office is still appropriate concerning FmHA's lending practices for loans to establish new dairy enterprises or to expand existing facilities. Surplus production continues to be a substantial cost to the taxpayers. FmHA is involved with many dairy farmers who have serious financial problems.

It is essential that all aspects of FmHA involvement in financing be carefully analyzed when processing applications for new or expanded dairy enterprises. Prior to making loans to new producers or for new or expanded herds or facilities, FmHA will assess the overall economic stability of the dairy industry in the area and consider the following:

1. Any indication of restrictions that processors may place upon producers in the area of the proposed loan.
2. The number of farms in the area that have vacant or inoperative dairy facilities due to economic or other conditions.
3. Check very thoroughly sales of comparable farms with dairy facilities in the area to determine the obsolescence factor and the value of the dairy facility to the farm.
4. FmHA must be acutely aware of the danger of overexpansion in certain areas and the adverse affect of overproduction on present FmHA borrowers and other producers.

EXPIRATION DATE: July 31, 1985

FILING INSTRUCTIONS: Preceding
FmHA Instruction 1941-A

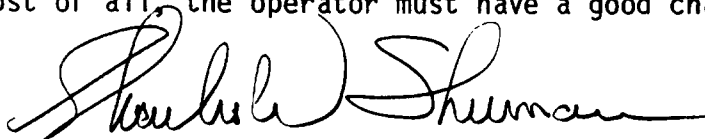


Farmers Home Administration is an Equal Opportunity Lender.
Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, D.C. 20250

5. Loans for new producers or new or expanded herds or facilities will not be made,

- a. To purchase or lease dairy headquarters facilities without adequate land resources for a proper and realistic feed production balance customary for the area.
- b. When a realistic cash flow plan does not reflect the borrower can meet operating and fixed expenses and pay required debt payment at the available interest rate.
- c. That will increase the industry production level for the area, exceed management ability of the applicant or the labor available within the family-size farm.
- d. If the applicant does not have an immediate need for the farm income.
- e. Where the existing facility is already an economical unit and is providing an adequate standard of living for the family.
- f. Unless the new start replaces an operation that is discontinuing dairying, such as conveying a family operation.
- g. To re-establish operators that have discontinued operating a dairy farm.
- h. If the land and buildings for new starts are not suitable for a dairy farm without major expenditures.
- i. To convert from other enterprises to dairying.

It is very important that each application for a dairy enterprise be carefully analyzed considering the above items and other circumstances pertinent to your area. The operator must be fully qualified, the security must be completely adequate, the terms must be appropriate and, most of all, the operator must have a good chance for success.



CHARLES W. SHUMAN
Administrator